



## **Debt Limit Debate Shines Spotlight on Gigantic Intergenerational Transfer of Debt**

**By Roscoe G. Bartlett**

For the past several years, Americans have been told that the federal government budget has been balanced and that we've been paying down the country's debt. Now, Americans are hearing that Congress must approve an increase in the national debt, or debt limit. How could this be happening?

To understand, we have to go back to budget basics. When Washington said we "balanced" the federal budget, it was not really balanced, as most Americans would understand a balanced budget. What was "balanced" was the unified budget. This is the balance of all the money that comes into Washington and all the money spent by Washington.

However, roughly a tenth of the money currently coming in to Washington should not be Washington's money to spend. This money is taken from citizens and put in trust for them for specific purposes. There are fifty some such trust funds including Social Security, Medicare, Civil Service Retirement, and Military Retirement. Social Security is the biggest. Many of these trust funds run surpluses.

Under the unified budget, instead of saving these surpluses, this money is immediately borrowed from the trust funds and automatically spent on other government programs. The trust fund debt occurs because all trust fund surplus dollars are required by law to be "invested" in U.S. bonds that can not be bought or sold and which earn "interest" at a rate set by law. The Treasury Department defines the accumulated debt and interest owed to government trust funds as "Intra-governmental Holdings of Debt."

The unified budget emerged when paying for the War in Vietnam and the War on Poverty would have revealed a federal budget deficit. Putting the surpluses from the trust funds "on budget" so that they could simultaneously be used to pay for other government programs would make the budget appear balanced. The resulting debt to trust funds would be presented "off budget." In 1967, Democratic President Lyndon Johnson appointed a Commission on Federal Budget Concepts which in its October 1967 report proposed a unified budget to do just that. Johnson submitted the first unified budget to a Democratic Congress in his last budget for Fiscal Year 1969 that was scheduled to begin on July 1, 1968. In March 1968, Johnson made a surprise announcement that he would

not run for re-election. Newly elected Republican President Richard Nixon adopted the unified budget in his subsequent budget proposals to Democratic Congresses. So was born the practice of using trust fund surpluses – or "Intra-governmental Holdings of Debt" to mask the size of the overall federal deficit.

Better known is the public debt or Wall Street debt. This is the total of all the monies the federal government has borrowed from domestic and overseas lenders by selling them securities, such as 10-year Treasury bonds, at market interest rates. The bigger the budget deficit, the more the federal government must borrow from private lenders increasing the public debt. Adding the trust fund debt and the public debt together produces the total or national debt.

Both Democratic and Republican Presidents and Congresses have perpetuated the federal government's use of the unified budget. With the accounting sleight of hand produced by the unified budget, persistent federal budget deficits in the 1970's, 1980's and 1990's appeared smaller than they actually were. The public debt increased as the government borrowed money in the private markets to cover all of the costs of running the government. However, with the unified budget, the total or national debt was increasing even faster -- up a dollar for every dollar of trust fund surpluses that was borrowed and spent.

To impose a modicum of budget discipline, Congress has established a debt limit or credit limit on the total amount the federal government can borrow. As trust fund and public debt combined to increase the national debt, Congress was periodically forced to approve increases in the debt limit. Failure would force unpleasant options. Immediately cut spending on some federal government programs or damage the government's reputation and credit rating by not paying some bills or default on paying back private lenders.

According to the Treasury Department, civil service, military retirement and Social Security account for 75% of "Intra-governmental Holdings of debt." Under the unified budget, Washington spends today the retirement money of every worker who is now paying Social Security FICA payroll taxes, or who is a federal government employee, or who has volunteered for a career in military service. We are telling our children and our grandchildren that we cannot operate our government on current revenues, so we are borrowing from your future. When you grow up and get a job you will have to pay taxes to run the government on current revenues. On top of that, you will also have to pay additional taxes for our retirement because we already spent it.

Before the lock boxes, even as Washington balanced the unified budget and began using the "surplus" to begin paying down the public debt, we were still increasing our national debt by the amount of the trust fund surpluses. I checked with the Congressional Budget Office (CBO) and even after the lock boxes there hasn't been a single month using the accrual method of accounting in which the national debt did not continue to rise. The federal government requires all businesses with more than \$1 million in annual

revenue to use the accrual method of accounting and our \$2 trillion in revenues is certainly bigger than that.

Until we change this law so that the government can do something else with the trust fund surpluses other than invest them in non-negotiable U.S. securities, we will always have an increasing national debt. Unless, of course, the government didn't spend all of its available money. But that hasn't happened in 33 years. Nor is it likely to happen as long as the unified budget makes it so difficult for anyone to understand the federal budget.

On April 2, the Treasury Department announced that, "The current statutory debt limit is \$5,950 billion. [That is almost \$6 trillion.] The debt outstanding subject to limit on April 1 was \$5,928 billion. The debt subject to limit includes "Debt Held by the Public" (57%) and "Intra-governmental Holdings of Debt" (43%)."

When it became obvious that the nation's debt was going to exceed the debt limit House Republican Congressional leaders tried, unsuccessfully, to hide the authority to increase the debt limit ceiling in the rule for the recently passed \$27 billion emergency supplemental appropriations bill. It didn't work. House Democrats exposed the attempt in a two-day attack.

Many defenders on the Republican side tried to explain the paradox of how paying down the debt could result in a need to increase the debt limit. They claimed it was because of the recession and the war against terrorism. Both brought us to this sorry state a bit earlier but they were not the cause.

But wait a minute, didn't the lock box stop the raid on Social Security?

No. The lock boxes on Social Security and Medicare had nothing to do with the trust fund debt. But they did have something to do with the public debt. The lock box legislation required that unified budget surpluses attributable to Social Security and Medicare would be used to pay down the public debt. But for each dollar of public debt paid down, a dollar of trust fund debt was still accrued. Thus the national debt didn't change at all. Meanwhile, surpluses in other trust funds were spent. As the trust fund debt continued to grow, the national debt continued to go up.

Perhaps even worse, the lock boxes were advertised as "securing," "protecting" or "saving" Social Security and Medicare. The lock boxes, of course, had nothing to do with securing, protecting, or saving Social Security and Medicare. This legislation simply assured that current surpluses in these trust funds would be used to pay down the public debt. But as the public debt went down, the trust fund debt went up - dollar for dollar - and there was no decrease in the total debt or national debt.

The only way the lock boxes could have anything to do with securing, protecting, or saving social security and Medicare is that paying down the public debt improves the credit worthiness of the United States. That translates to lower borrowing costs in the

future due to lower market interest rates for the purchase of U.S. public debt notes, such as Treasury bonds.

Now back to the debt limit increase. If it is not increased, Washington faces three unpleasant options. Immediately reduce spending on some federal programs, don't pay some of its bills, or default on payments to some creditors. This would be very embarrassing and politically damaging. But it's also embarrassing and politically damaging to admit that Washington's rhetoric by both Republicans and Democrats alike has not been altogether truthful.

The American people were clearly led to believe that the federal government's budget was balanced and that surpluses were being used to pay down our nation's debt. Now, they're finding out that wasn't true.

On June 11, the Senate passed S. 2578, a stand-alone bill to increase the debt limit by \$450 billion, an amount calculated to provide authority for the federal government to operate with additional borrowing through the end of this year. But House Republican members have been reluctant to support a stand-alone increase in the debt limit. As an alternative, Senate Democrats are offering to include an increase in the debt limit in the final conference report of the emergency supplemental appropriations bill - but at a price. Their price is an increase in non-defense spending that the House Republican Study Committee calculates would increase the national debt by an additional \$50 billion over the next five years. The purpose of the emergency supplemental appropriations bill is to pay for our military to successfully wage the ongoing war against terrorism.

All of this leads me to two reflections. "What a tangled web we weave, when first we practice to deceive" and "be sure your sin will find you out."

There may be one rosy outcome as a result of the necessity for Congress to debate increasing the federal government's debt limit. I believe the American people really do want a truly balanced budget. And I seriously doubt that they will elect increased taxes over decreased spending.

When I was first elected to Congress ten years ago I was sixty-five. I swore then that I would never say or do anything that would cause my children or grandchildren to want to spit on my grave. I still haven't. I have argued for honesty in all of our debates about public policy. I have striven to educate my constituents and colleagues on both sides of the aisle about the confusion caused by the unified budget and what I believe is its fundamental dishonesty. In other words, I have been a skunk at a garden party.

I urge all of my colleagues to use this moment of bipartisan embarrassment to vow once and for all that we will put the unified budget where it belongs on the ash heap of history. A small start might be my bill, H.R. 1207, that would put the Medicare Federal Hospital Insurance Trust Fund as well as Social Security in a true lock box off budget. Then, we should put all other trust funds in true lock boxes off budget. Finally, we must change the law that converts trust fund surpluses into "Intra-governmental

Holdings of Debt.” Otherwise, we’ll continue to have this same debate to raise the debt limit over and over again.

We can not possibly have an honest debate about the federal budget in the Congress, let alone expect the public to do so, if we continue to lie to ourselves and the American people about its basic facts.

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